



State of Washington  
Department of Revenue

# Excise Tax Advisory

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Excise Tax Advisories (ETA) are interpretive statements issued by the Department of Revenue under authority of RCW 34.05.230. ETAs explain the Department's policy regarding how tax law applies to a specific issue or specific set of facts. They are advisory for taxpayers; however, the Department is bound by these advisories until superseded by Court action, Legislative action, rule adoption, or an amendment to or cancellation of the ETA.

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NUMBER: 448.04.193

CONVERSION DATE: July 1, 1998

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## DOMESTIC INTERNATIONAL SALES CORPORATIONS (DISC)

Issued May 31, 1972

What is the state taxability of DISC corporations established pursuant to the provisions of the Federal Internal Revenue Act of 1971?

The 1971 Internal Revenue Act provides for the establishment of subsidiary corporations by parent firms for the purpose of engaging in export sales of extracted, manufactured, or purchased products. The DISC may act as direct seller of the products transferred to it by the parent firm, or may act as sales agent for the parent firm which sells the products in its own name. In either instance the result is a direct Federal income tax concession or deferral as provided by the Federal Act.

The State Department of Revenue has ruled upon the taxability of such transactions under both the "direct seller" and "commissioned agent" methods of organization. The usual rules of export sales (Rules 193C and 193D) and transactions between affiliated corporations (Rule 203) are equally applicable to transactions of, or with, DISC corporations. For state tax purposes a DISC is taxable just like any other corporation.

### Direct Seller Arrangement

Under this method the parent firm transfers the product to the DISC at a discounted price. The DISC makes the export sale directly by delivery to a carrier for shipment to a foreign purchaser.

Result: The gross receipts from such export sales are exempt from business tax under published Rule 193C. This exemption is perfected by the DISC maintaining documentary proofs of export in its permanent files.

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***ETBS have been made Excise Tax Advisories, and have retained their old number. Advisories with a 2 (plus three digits) are new advisories, ETBs that have been revised and readopted after review under the Department's regulatory improvement program, or advisories that have been revised and/or readopted.***

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A "manufacturer" parent firm is subject to Manufacturing business and occupation tax upon the gross proceeds of its sales to the DISC. This is so notwithstanding that the product sold was ultimately exported or was manufactured exclusively for export. The percentage discount actually taken by the DISC on products sold to it by the parent firm will be allowed as a deduction from the measure of the manufacturing tax.

An "extractor" parent firm is subject to business and occupation tax under the Extracting classification measured by the value of goods extracted as determined by their selling price. Again, the discount actually taken by the DISC will be allowed as a deduction from the measure of the tax.

A "purchaser" parent firm (buying and selling products other than those which it extracts or manufactures itself) may also be afforded an export exemption if it makes delivery aboard ship or alongside ship. In this way the sale will be treated as an exempt export sale notwithstanding the intervention of the DISC. Both parent firm and DISC must retain the appropriate proofs of export, and in the case of the parent, must retain evidence of delivery to the DISC aboard or alongside ship.

#### Commissioned Agent Arrangement

Under this method the DISC acts as sales agent or broker for the parent firm. It is the conduit through which export sales are consummated. The DISC provides a distinct and compensable service to the parent firm, regardless of the fact that the DISC may have no employees or fixed assets or was incorporated only to satisfy minimum Federal requirements.

Result: The DISC is subject to business and occupation tax under the Service category measured by the gross commissions paid to it by the parent firm.

The parent firm, as an extractor or manufacturer, continues to be taxable as outlined above. As a purchaser and seller it may be exempt as an export seller if it meets the conditions and retains evidentiary documents as specified in Rule 193C.